Dear Maricopa County Special Health Care District Board of Directors,

As we enter fiscal year 2026 (FY26), Valleywise Health faces a complex financial landscape shaped by both macroeconomic pressures and policy uncertainties. The operating budget reflects a careful balancing act as we continue to deliver high-quality care while navigating external challenges and making key strategic investments.

Key Budgetary Pressures

Federal Funding Uncertainty

A primary concern this fiscal year is the ongoing uncertainty surrounding federal Medicaid changes and the future of state-directed payment programs. As the policy environment remains fluid, especially in the wake of anticipated regulatory and budgetary adjustments, we may need to adjust our projections and resource allocation mid-year. These potential shifts could significantly affect reimbursement rates and supplemental funding streams.

Cost Inflation and Supply Chain Challenges

We continue to experience rising costs across labor and supplies. Inflation, compounded by new and ongoing tariffs, has increased the cost of medical supplies, pharmaceuticals, and general operating materials. While some pricing stabilization is expected, volatility remains a risk.

Compensation and Medical Service Fees

Though our reliance on contract labor has decreased due to successful recruitment and retention efforts, overall labor costs remain high. Benefit expenses have increased sharply due to a higher volume of employee health claims. Additionally, medical service fees for our contracted physicians and advanced practice providers have risen, reflecting volume increases, national trends and local market competitiveness.

Declines in Other and Non-Operating Revenue

We anticipate a continued reduction in 340B program savings due to policy changes. Furthermore, Valleywise Health Foundation financial support has softened as Care Reimagined concluded, and federal grant dollars have subsided, impacting the availability of non-operating funds to support strategic initiatives. Retail Pharmacy revenue remains strong, and with the uncertainty, state directed payment dollars were budgeted at the current federal fiscal year amounts.

Strategic Investments and Costs

Revenue Cycle and IT Modernization

A major investment continuing next year is the EPIC Refuel project, focused on optimizing our revenue cycle operations and driving long-term billing and collections efficiency. Simultaneously, IT Security costs have increased significantly, in line with the heightened cybersecurity landscape and regulatory requirements.

Election Ballot Proposal

The operating budget also incorporates the one-time cost of placing a strategic initiative on the election ballot, Proposition 409, designed to support the replacement of aged facilities and support community health priorities.

Positive Developments

Despite the headwinds, several developments offer a positive financial outlook:

- Behavioral Health growth: FY26 will be the first full year of operations with all inpatient behavioral health units opened. This will increase critical admission availability for the most acute behavioral health patients, realizing the promise made through Care Reimagined.
- Volume Growth: We are projecting conservative growth across most clinical service lines due to capacity constraints. The focus through the year will remain on throughput, productivity and efficiency while we plan for future growth to grow capacity.
- Reduced Contract Labor: Our strategic focus on workforce development has reduced our dependency on contract labor, leading to improved cost predictability and stronger team cohesion.

Taxpayer Support

Tax subsidies continue to play a vital role in supporting operations and financial obligations. For FY26, the Maintenance and Operations (M&O) property tax levy supports our core safety net operations. For FY26, it includes with an additional $11,590,170 allocated to repay the Tax Anticipation Notes (TANs) issued in FY2025. These TANs were necessary to offset funds required to be withdrawn by the Maricopa County Treasurer’s Office in response to the Qasimyar judgment against the County. The total M&O tax rate will be 0.192 per $100 of net assessed value, which includes a 0.019 rate specifically for the TANs repayment. Additionally, the General Obligation (GO) Bond tax rate is set at 0.980 per $100 of net assessed value, supporting ongoing debt service for the Care Reimagined capital investments.

Capital Budget

The FY26 Capital Budget of $32 million prioritizes strategic investments that enhance patient care, safety, and infrastructure reliability. The largest allocation supports the construction of a Hybrid Operating Room to advance trauma capabilities, along with key radiology upgrades including new mammography, CT, ultrasound, and diagnostic imaging equipment. Facility improvements will focus on patient safety with behavioral health door replacements and essential weatherproofing at the Maryvale Behavioral Health facility. In IT, capital funds will support workstation replacements, expansion of disaster recovery network capabilities, and increased storage through Isilon systems. Separately, under the Care Reimagined capital budget, we will continue the phased demolition of the legacy hospital tower to make way for future development.

Cash Flow

Operating cash flow for the hospital in FY26 will primarily be driven by net patient service revenue, supplemented significantly by state-directed payment programs—particularly the Safety Net Services Initiative, which remains a critical source of operating support. Despite ongoing pressures, the hospital projects a year-end balance of approximately 113 days cash on hand, reflecting disciplined financial management and a focus on preserving liquidity amid operational and policy uncertainties.

Outlook and Focus Areas

Our FY26 plan is built on a foundation of prudent assumptions and agile response capabilities. The year will focus heavily on operational efficiency and throughput, ensuring we maximize our resources while maintaining quality. Strategic initiatives are aimed at cost containment, process redesign, and revenue enhancement.

Given the uncertainty of Medicaid funding changes, we will continue to closely monitor federal and state developments and be prepared to make mid-course corrections as needed. Our ability to pivot effectively in response to policy and economic shifts will be critical to maintaining financial stability.

Summary

FY26 is a year of transition and focus. While we face significant challenges—rising costs during funding uncertainty —we are also seeing the benefits of past investments in care delivery and staffing, and especially the conclusion of Care Reimagined. With an eye toward efficiency and resilience, our health system remains committed to sustainable, mission-driven care for the communities we serve.

I conclude by extending my sincere gratitude to the Finance team, our operational leaders, and the Valleywise senior leadership team for their diligence, collaboration, and commitment in developing this year's operating and capital budgets under challenging and uncertain conditions.

We are grateful to the taxpayers of Maricopa County for their financial support allowing us to continue our service to them. A special thanks to the FQHC Governing Council for their continued engagement, and especially to the District Board of Directors for their steadfast leadership, support, and guidance. Your confidence empowers our leadership team to lead with purpose and accountability.

Most importantly, we thank our dedicated staff and providers for the exceptional care they deliver—every patient, every time. Your compassion and professionalism remain the foundation of our mission and success.

Sincerely,

Claire Agnew, CPA, MBA
EVP, Chief Financial Officer

Maricopa County Special Health Care District
Budget FY 2026
Income Statement

	FY 2024 Total Actual	FY 2025 Total Budget	FY 2025 Projected Full Year	FY 2026 Total Budget	Variance Fav / (Unfav) Budg 26-Proj 25	% Variance Fav / (Unfav) Budg 26-Proj 25
OPERATING REVENUE						
Net Patient Service Revenue	$ 501,982,011	$ 521,149,324	$ 542,777,475	$ 575,588,246	$ 32,810,771	6.0 %
Other Revenue	380,178,627	446,673,417	541,681,679	592,951,103	51,269,424	9.5 %
Total Operating Revenue	**882,160,637**	**967,822,742**	**1,084,459,154**	**1,168,539,349**	**84,080,194**	**7.8 %**
OPERATING EXPENSES						
Salaries and Wages	332,412,178	369,634,671	375,483,163	408,311,191	(32,828,029)	(8.7 %)
Contract Labor	70,506,558	60,203,696	59,609,082	50,252,090	9,356,991	15.7 %
Employee Benefits	110,761,738	114,466,847	115,001,074	128,966,337	(13,965,263)	(12.1 %)
Medical Service Fees	127,661,094	122,457,036	113,052,815	142,408,763	(29,355,947)	(26.0 %)
Supplies	119,042,983	120,566,005	137,339,062	138,889,146	(1,550,084)	(1.1 %)
Purchased Services	63,676,750	64,883,628	62,052,861	84,072,091	(22,019,230)	(35.5 %)
Repair and Maintenance	22,317,963	21,814,784	22,079,067	23,506,289	(1,427,223)	(6.5 %)
Utilities	9,913,153	8,172,586	10,881,800	11,839,499	(957,699)	(8.8 %)
Rent	7,414,785	7,644,653	8,144,371	7,671,297	473,075	5.8 %
Other Expenses	26,989,252	29,855,148	30,419,631	30,637,901	(218,270)	(0.7 %)
Provider Assessment	0	0	0	0	0	0.0 %
Depreciation	59,374,902	51,276,585	56,071,407	61,893,840	(5,822,433)	(10.4 %)
Total Operating Expense	**950,071,356**	**970,975,640**	**990,134,333**	**1,088,448,444**	**(98,314,112)**	**(9.9 %)**
Operating Income (Loss)	**(67,910,718)**	**(3,152,898)**	**94,324,822**	**80,090,904**	**(14,233,917)**	**(15.1 %)**
NONOPERATING REVENUES (EXPENSES)						
NonCapital Grants	11,415,618	12,192,884	11,252,938	5,014,260	(6,238,679)	(55.4 %)
NonCapital Transfers from County/State	3,547,896	3,547,896	3,547,896	3,552,763	4,867	0.1 %
Investment Income	7,865,697	7,570,867	8,513,486	9,026,556	513,070	6.0 %
Other NonOperating Revenues (Expenses)	(127,649,734)	(101,729,864)	(154,317,655)	(212,426,458)	(58,108,804)	(37.7 %)
Interest Expense	(17,544,396)	(17,518,648)	(17,440,120)	(25,508,300)	(8,068,180)	(46.3 %)
Tax Levy	138,728,905	153,380,068	153,380,068	176,208,374	22,828,306	14.9 %
Total NonOperating Revenues (Expenses)	**16,363,985**	**57,443,202**	**4,936,614**	**(44,132,805)**	**(49,069,419)**	**(994.0 %)**
Excess of Revenues over Expenses	**$ (51,546,733)**	**$ 54,290,304**	**$ 99,261,435**	**$ 35,958,099**	**$ (63,303,336)**	**(63.8 %)**
Bond-Related Revenues and Expenses	(45,536,932)	(35,608,928)	(37,447,417)	(35,430,112)	2,017,305	5.4 %
Increase in Net Assets (normalized)	**$ (97,083,665)**	**$ 18,681,376**	**$ 61,814,018**	**$ 527,987**	**$ (61,286,031)**	**(99.1 %)**